

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 3, 2002

IN RE:

**NASHVILLE GAS COMPANY
ACTUAL COST ADJUSTMENT (ACA) AUDIT**

**DOCKET NO.
02-00361**

**ORDER ADOPTING ACA AUDIT REPORT OF TENNESSEE REGULATORY
AUTHORITY'S ENERGY AND WATER DIVISION**

This matter came before Director Deborah Taylor Tate, Director Pat Miller, and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on October 21, 2002, for consideration of the report of the Authority's Energy and Water Division (the "Staff") resulting from the Staff's audit of Nashville Gas Company's ("Nashville Gas" or the "Company") annual deferred gas cost account filing for the eleven (11) months ended December 31, 2001.¹ The Actual Cost Adjustment ("ACA") Audit Report (the "Report"), attached hereto as Exhibit 1, contains the audit findings of the Staff.

The Company submitted its ACA filing on April 2, 2002, and the Staff completed its audit of the Company's filing on October 4, 2002. The Staff filed its Report with the Authority on October 9, 2002. The Report contains no material findings.

The Report states that the Staff's audit showed a net over-recovery of gas costs of \$1,948,626.44 for the audit period. The Report states that the Company began refunding this

¹ As the Report states, the normal audit period is twelve (12) months ending in December, but the Report for the period ended December 31, 2001 covers only eleven (11) months because January 2001 was included in the prior audit (Docket No. 01-00306) at the request of Nashville Gas.

amount to its customers on April 1, 2002. The Report further states that the Staff concludes that the Purchased Gas Adjustment mechanism as calculated in the ACA is working properly and in accordance with the Authority's rules for Nashville Gas.

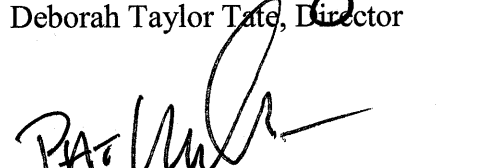
After consideration of the Report, the voting panel unanimously approved and adopted the findings and recommendations contained therein.

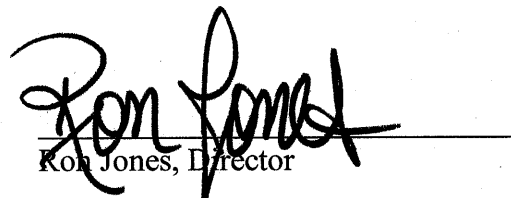
IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Audit Report, a copy of which is attached to this order as Exhibit 1, is approved and adopted, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein;

2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.


Deborah Taylor Tate, Director


Pat Miller, Director


Ron Jones, Director

RECEIVED

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 9, 2002

02 OCT 9 PM 3 47
TN REGULATORY AUTHORITY
DOCKET ROOM

IN RE:

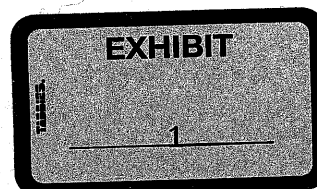
NASHVILLE GAS COMPANY
ACTUAL COST ADJUSTMENT (ACA) AUDIT

)
)
) Docket No. 02-00361
)

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority hereby gives notice of its filing of the Compliance Audit Report of the Actual Cost Adjustment (hereafter "ACA") Component of the Purchased Gas Adjustment Rule for Nashville Gas Company in this docket and would respectfully state as follows:

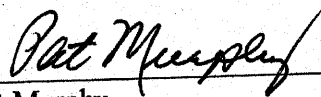
1. The present docket was opened by the Authority to hear matters arising out of the audit of Nashville Gas Company (the "Company").
2. The Company's ACA filing was received on April 2, 2002, and the Staff completed its audit of same on October 4, 2002.
3. The Staff performed an examination of the Actual Cost Adjustment filed by Nashville Gas Company for the period February 2001 through December 2001, as ordered by the Tennessee Regulatory Authority. The examination included all gas invoices and accompanying backup schedules. The audit was conducted using normal auditing procedures



and resulted in no material findings. Therefore, Staff's opinion is that the Company is properly implementing the Actual Cost Adjustment in accordance with the rules and regulations of the Tennessee Regulatory Authority. The final ACA audit report (the "Report") is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

A handwritten signature in cursive script, reading "Pat Murphy", written over a horizontal line.

Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of October, 2002, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Bill R. Morris
Director-Rates
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, NC 28233

Ms. Ann Boggs
Director of Gas Accounting
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, NC 28233


Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

Nashville Gas Company

ACTUAL COST ADJUSTMENT

DOCKET NO. 02-00361

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

October 2002

COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
ACTUAL COST ADJUSTMENT
DOCKET NO. 02-00361
TABLE OF CONTENTS

| | <u>PAGE NO.</u> |
|---|-----------------|
| I. INTRODUCTION | 1 |
| II. AUDIT OPINION | 1 |
| III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS | 2 |
| IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY | 2 |
| V. DESCRIPTION OF THE PURCHASED GAS ADJUSTMENT RULE | 3 |
| VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT | 4 |
| VII. ACA FINDINGS | 4 |

I. INTRODUCTION

The subject of this audit is Nashville Gas Company's ("Company" or "NGC") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit was to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA")¹, for the eleven (11) months ended December 31, 2001, were calculated correctly and were supported by appropriate source documentation. The audit period was for eleven (11) months instead of the usual twelve (12) months, because January 2001 was included in the last audit at the Company's request.

II. AUDIT OPINION

The Staff's audit resulted in no material findings. Therefore, the Staff concludes that the Purchased Gas Adjustment ("PGA") mechanism as calculated in the Actual Cost Adjustment is working properly and in accordance with the TRA rules for Nashville Gas Company.

On April 2, 2002, Staff received NGC's ACA filing supporting the activity in its deferred gas cost account ("ACA account") for the period February 1, 2001 through December 31, 2001. The Company filed a PGA on March 1, 2002, effective April 1, 2002, implementing a rate adjustment to distribute the balance reflected in the ACA account to the various rate classes. This ACA filing showed \$83,258,230.30 in total gas costs, with \$86,412,030.57 being recovered from customers through rates. Adding a beginning balance in the ACA account of \$1,249,868.05 under-collected gas costs from the preceding ACA period and interest due to customers for the current period of \$44,694.22 resulted in an ACA balance at December 31, 2001 of **\$1,948,626.44 in over-collected gas costs**. The Company began refunding this amount to its customers on April 1, 2002.

¹ The ACA is more fully described in Section V.

III. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Nashville Gas Company, with headquarters at 665 Mainstream Drive, Nashville, Tennessee, is an operating division of Piedmont Natural Gas Company, which has its headquarters at 1915 Rexford Road, Charlotte, North Carolina. NGC is a gas distributor that provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from producers and marketers and transported to Nashville's city gate through the interstate transmission facilities of Tennessee Gas Pipeline (TGP), Columbia Gas Transmission Corporation (CGTC), and Texas Eastern Gas Pipeline (TETCO).

IV. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Division of the TRA is responsible for auditing those companies under the Division's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy and David McClanahan of the Energy and Water Division conducted this audit.

V. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA consists of three major components:

- 1. The Actual Cost Adjustment (ACA)**
- 2. The Gas Charge Adjustment (GCA)**
- 3. The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "true-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180-day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 96-00805, Nashville Gas was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR"), beginning July 1, 1998, and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

VI. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The Company submitted its ACA filing on April 2, 2002. On July 29, 2002, the TRA Staff requested an extension of the 180 days notification period to October 22, 2002 and the Company agreed. An extension was needed in order that the Company would have sufficient time to respond to outstanding items in the Staff's requests for additional information and the Staff would have sufficient time to review those responses.

Staff performed this audit to verify that the Company's calculations of gas costs incurred and recovered were correct. Also included in this audit was the Company's PGA filing to distribute the ACA account balances at December 31, 2001. The rate adjustment became effective April 1, 2002.

Staff also audited a sample of customer bills to determine if the proper PGA rates were applied in the Company's calculation of customer bills during the audit period. Since the Company's billing process is computerized, a sample of 68 bills was tested. These bills were selected to be representative of the residential, commercial, industrial and interruptible customers in the Company's service area. The sample was selected from the twelve-month period April 2001 through March 2002. After recalculating each sample bill, we determined that the calculation methods utilized by the Company are correct.

VII. ACA AUDIT FINDINGS

Staff's audit results showed no material findings.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + \text{DACA}}{\text{SF}} - \text{DB} + \frac{P + T + \text{SR} + \text{CACA}}{\text{ST}} - \text{CB}$$

$$\text{Non-Firm GCA} = \frac{P + T + \text{SR} + \text{CACA}}{\text{ST}} - \text{CB}$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{\text{DR1} - \text{DR2}}{\text{SFR}} + \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

$$\text{Non-Firm RA} = \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

where

RA = The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.

DR2 = A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.

CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.

CR2 = A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.

CR3 = The residual balance of an expired Refund Adjustment.

i =

Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR =

Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR =

Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.